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CANADIAN EXPORT GAS & OIL LTD.

CEGO

Annual Report

APRIL 30TH, NINETEEN SIXTY-SIX

THE YEAR'S HIGHLIGHTS

		1965-66	1964-65
PRODUCTION (Net after royalties):			
Oil Production — Annual	Bbls.	395,607	414,111
— Daily Average	Bbls.	1,084	1,135
Gas Production — Annual	MMcf.	7,832	8,710
— Daily Average	MMcf.	21	24
EARNINGS:			
Gross operating income less royalties paid:			
Crude oil sales	$	986,222	1,024,538
Natural gas sales	$	1,092,805	1,194,528
Royalty income	$	166,333	178,402
	$	2,245,360	2,397,468
Cash flow from operations	$	1,150,092	1,588,082
Per share	¢	15	20
Net earnings (excluding non-recurring gain)	$	67,643	817,689
Per share	¢	1	10
DRILLING ACTIVITY:			
Exploratory wells drilled (gross):			
Oil		3	2
Gas		1	0
Dry		12	9
		16	11
Development wells drilled (gross):			
Oil		9	9
Gas		2	0
Dry		3	1
		14	10

DIRECTORS

August F. Beck	*Calgary, Alberta*
F. R. Burton (Elected June 15)	*Toronto, Ontario*
Eric Connelly	*Calgary, Alberta*
Wilbur L. Griffith	*Calgary, Alberta*
Francis Kernan	*New York, New York*
Plato Malozemoff	*New York, New York*
Milton H. Mandel	*New York, New York*
P. R. Payn (Resigned June 15)	*Montreal, Quebec*
Francis E. Rinehart	*New York, New York*
Franz Schneider	*New York, New York*

OFFICERS

August F. Beck	*President and General Manager*
Paul C. Evans	*Vice-President — Production*
W. P. Hancock	*Vice-President — Exploration*
Derek N. Walker	*Secretary-Treasurer*
Francis E. Rinehart	*Assistant Secretary*

HEAD OFFICE

736 - 8th Avenue S.W. — *Calgary, Alberta*

SUBSIDIARIES AND AFFILIATES

Canex Gas Ltd.
Bluewater Oil & Gas Limited
CEGO Minerals Ltd.
North Dakota Royalties Ltd.

SHARES LISTED

American Stock Exchange, New York
Midwest Stock Exchange, Chicago
The Toronto Stock Exchange

TRANSFER AGENTS

Crown Trust Company	*Calgary and Toronto*
Harris Trust and Savings Bank	*Chicago, Illinois*

REGISTRARS

Crown Trust Company	*Calgary and Toronto*
American National Bank and Trust Company	*Chicago, Illinois*

AUDITORS

Peat, Marwick, Mitchell & Co. — *Calgary, Alberta*

To The Shareholders –

Developments in the Rainbow Lake area have already established reserves of major proportions and indicate a potential in northwestern Alberta greater than that of any of the current oil and gas producing regions of western Canada. Prior to the announcement of the initial Rainbow discovery your Company, through the purchase of Siebens Leaseholds Ltd., acquired a major land position in northwestern Alberta. Elsewhere in this report a map depicts the CEGO acreage relative to the recent developments in this area. These land holdings, 1½ million acres, have been farmed out to other companies to carry out the exploration surveys and initial drilling, the cost of which will be borne entirely by the farmees. It will be two to three years before the total program will be completed.

In the immediate Rainbow Lake area, the Alberta Conservation Board has set up a field outline encompassing two oil pools. The only official release of information to date with respect to reserves has been relative to these pools, where thicknesses in the Keg River formation range from 218 to 435 feet of oil pay. Reserves based on such thicknesses are estimated to range from 50 to 150 million barrels per section (640 acres). Several additional pools are developing in the immediate area. Stretching beyond this, north and east, another seven discoveries have been indicated. Two of these are gas wells on acreage adjoining one of the Company's blocks. The Rainbow field is now served by a 200 mile pipeline connecting at the Utikuma-Nipisi junction. Approval has also been given for an extension of the pipeline north and east, to the Alberta-Northwest Territories boundary.

Exploration

The Company has maintained an active program elsewhere in western Canada. This has resulted in a successful western extension of the Swan Hills oil field of Alberta and in a gas well in the Fox Creek area which will be production tested. In Saskatchewan, the Company participated in two oil discoveries.

Financial

For the first time in nine years, the Company's earnings have not shown an improvement over the previous year. The gross income of $2,245,000 was down about 6% and the net earnings were $68,000, compared with $818,000 last year.

Additional interest, operating expenses and other charges incurred in the financing and servicing of the large acreage spread acquired at the end of the previous fiscal year were largely responsible for a decrease of 28% in the cash flow to $1,150,000. The sharp drop in net earnings was further aggravated by increased abandonment and dry hole charges.

Gas and Oil Production

The Company's gas production for the fiscal year was 7.832 billion cubic feet, a decline of approximately 10% from the previous year's production. Its oil production was 395,607 barrels, a decline of about 4%.

Unconsolidated Subsidiary
(CEGO Interest 61%)

Bluewater Oil & Gas Limited, operating in Ontario, participated in the drilling of three development wells and two exploratory wells. A total of five wells are now producing in the Willey field and since the year end a sixth well has been completed and put on production. As this report was being written, two exploration wells were being drilled on pooled acreage in the Southwold and Westminster areas.

Corporate

During the year the Company obtained approval to change the name of Siebens Leaseholds Ltd. to CEGO Minerals Ltd. and to amalgamate its wholly owned subsidiaries W. L. Griffith Ltd. and The Lambton Company Limited with CEGO Minerals Ltd. The assets of North Dakota Royalties Ltd. have been transferred to CEGO Minerals Ltd. and it is planned to liquidate North Dakota Royalties in the near future. The purpose of these changes was to simplify the Company's corporate structure and effect operating economies.

Mr. P. R. Payn, who has served as a director of the Company since 1958, advised the Board of Directors that he has retired from active business and therefore did not wish to remain a director. His resignation was accepted with regret. Dr. F. R. Burton has been appointed to fill this vacancy. Dr. Burton, a resident of Toronto, has been actively associated with the oil and gas and mining industries for many years. He is a director of several other petroleum and mining companies.

General

Some concern has been expressed about the impact of oil reserves from the Rainbow Lake area on prorated production allowables of some of the older producing areas in the province. From a short term view, it appears that there could be some reduction in these allowables. However, the majority of predictions, based on projected demand and discovery rates, indicate there will be an increased shortage of hydrocarbon reserves in the United States for the long range (ten to fifteen years). Assuming the continuation of the present continental oil supply concept, the long range market potential for Canadian reserves is most attractive.

For the short term the Company's oil production from its present producing properties should remain steady or perhaps increase with the successful development of the Swan Hills extension and the continued improvement in the secondary recovery program in Manitoba. In addition, its present rate of gas production is expected to be maintained with additional volumes available for peak loading.

On behalf of the Directors I wish to express appreciation to all employees for their continuing loyalty and interest.

A. F. Beck
President

Calgary, Alberta
July 8, 1966

GAS PRODUCTION

CEGO's gas production for the past year decreased 10.08% to 7.832 billion cubic feet. The decrease in production is due essentially to the termination on November 1, 1965 of peak loading contracts. CEGO has gas available in excess of present maximum daily contractual commitments and will be prepared to supply peak loading gas if it is required.

The agreement with Saskatchewan Power Corporation to operate the compressor and gathering system for one year at Medicine Hat has now been terminated. Gas production was hampered by excessive water production which made the project uneconomical. Sale or other disposition of these wells is being investigated.

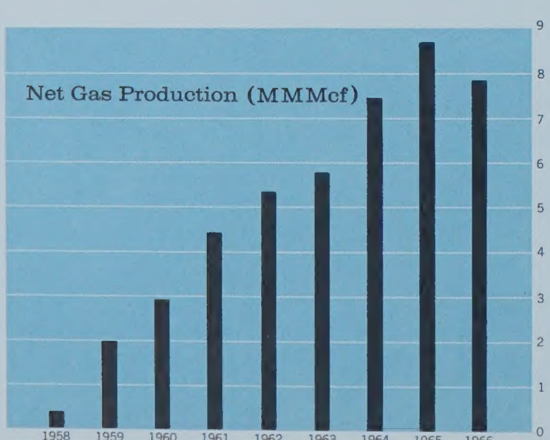
Two additional development wells were drilled and connected to the gathering system at Hilda. A previously drilled well was connected to the Wood River Gathering System during the past year. This well provides additional production to supply the necessary deliverability for the next few years.

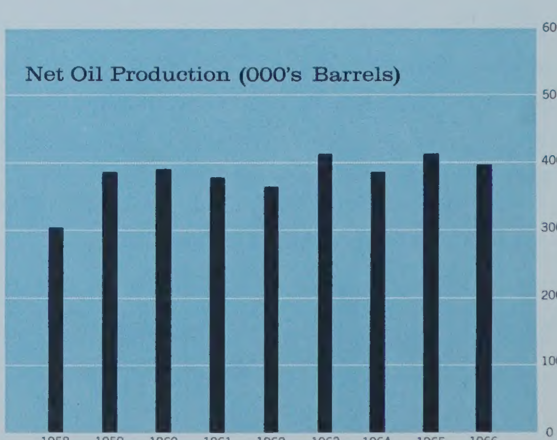
During the coming year one or two more wells will be drilled at Hilda and added to the system. An additional well at Sedalia will be drilled during the coming year in order to maintain maximum daily contractual quantities.

NET GAS PRODUCTION BY FIELDS

(After Royalties) *(Thousands of Cubic Feet)*

	1966	1965	1964	1963	1962
Bindloss	1,741,726	2,003,403	1,775,963	1,196,040	1,024,799
Steveville	2,999,727	3,762,485	3,030,512	2,078,592	2,077,604
Atlee-Buffalo-Jenner	337,083	330,996	245,121	226,673	232,749
Medicine Hat	140,355	151,587	86,231	—	18,697
Hilda	1,500,458	1,515,406	1,444,938	1,450,053	1,481,129
Countess-Duchess	128,207	132,640	165,262	212,438	212,496
Sedalia	422,413	432,585	412,495	373,803	135,670
Wood River	328,517	312,253	284,719	191,262	330,457
Crossfield-Turner Valley	22,378	22,785	20,992	22,989	8,950
Braeburn (Saddle Hills)	211,331	46,279	—	—	—
	7,832,195	8,710,419	7,466,233	5,751,850	5,522,551





OIL PRODUCTION

During the past year, CEGO's net oil production decreased 4.44% to 395,607 barrels. This decrease was due primarily to reduced production in the Crossfield Unit because of lower production allowables and conversion of additional producing wells to water injectors.

Alberta

VIRGINIA HILLS

Another producer has been drilled and is being prepared for production on farmout acreage. This producer was drilled and completed at no cost to the Company with CEGO retaining 20% interest. At time of writing this report the farmee has exercised his option on another 160 acre farmout.

CROSSFIELD

It was necessary to convert six producing wells to water injectors in order to balance water injection with fluid withdrawal to avert localized gas cap formation. This, together with the new Alberta Proration Plan, reduced the Unit Allowable during the year. The present water injection rate will improve the reservoir performance and the unit should now produce its monthly allowable.

SWAN HILLS

The recent oil discovery at Swan Hills was completed as a successful producer with a daily flowing rate of 217 barrels on 14/64 inch choke. Your Company has a 33⅓% interest in this discovery and in the 2,240 acres of leases taken from the drilling reservation in which the well was drilled. A continuous drilling program on 320 acre spacing has been initiated and the first follow up well was being completed as a producer as this report was being written. (See map).

Saskatchewan

NORTHGATE

The production increase is due to the development of the East Northgate Field but no further drilling is planned at present. An additional Frobisher development well was completed in this area during the year.

Preliminary investigation of a water injection program is being made on these properties and if deemed feasible, will be initiated at a later date.

WILLMAR

A development well offsetting the discovery well has been drilled and completed on this acreage. Further development is awaiting production tests on these two wells.

BROWNING

Four development wells were drilled offsetting the discovery well on this acreage. Two were producers and two were dry holes. One of the dry holes is being converted to a salt water disposal well.

Manitoba

VIRDEN-ROSELEA

In the Virden-Roselea area the Company is participating in two active water flood programs and in a third which is now being formulated. The Scallion Unit, the first to be formed, has shown excellent performance over the past two years. CEGO's interest in this Unit is quite small (1.05%) and the Company's production has, therefore, not been greatly affected. In the Virden-Roselea Unit No. 1 (involving approximately 3,000 acres) the Company has a 23% interest. This Unit became effective July 1st, 1965 and water injection commenced during the latter part of December, 1965. Performance to date is following the trend established by the Scallion Unit.

The Virden-Roselea Unit No. 3 (involving approximately 4,300 acres) is now being formed. Effective date is anticipated as October 1, 1966 with a commencement of water injection scheduled before the end of the year. CEGO's interest in this Unit will be approximately 12%.

The indicated success of these projects has substantially increased the ultimate recoverable reserves. Present predictions indicate that these properties will continue to make an important contribution to the Company's production for the next 15-20 years.

NET OIL PRODUCTION BY FIELDS

(After Royalties)

	(Net Barrels) 1966	1965	1964	1963	1962
Florence-Carnduff, Sask.	103,055	120,011	132,467	166,231	141,776
Northgate, Sask.	49,929	40,385	4,043	—	—
Browning-Willmar, Sask.	13,976	—	—	—	—
Virden-Roselea, Man.	108,147	99,570	93,950	93,702	89,304
Big Valley, Alberta	25,214	30,241	29,444	31,815	36,121
Manyberries, Alberta	13,924	14,587	16,572	17,611	19,825
Wood River, Alberta	7,459	5,352	4,985	5,384	5,995
Crossfield, Alberta	52,792	81,688	92,521	90,832	55,073
Virginia Hills, Alberta	11,371	10,269	—	—	—
Swan Hills, Alberta	1,258	—	—	—	—
Swalwell, Alberta	2,490	3,596	—	—	—
Other Areas	5,992	8,412	8,533	8,829	11,933
	395,607	414,111	382,515	414,404	360,027

EXPLORATION

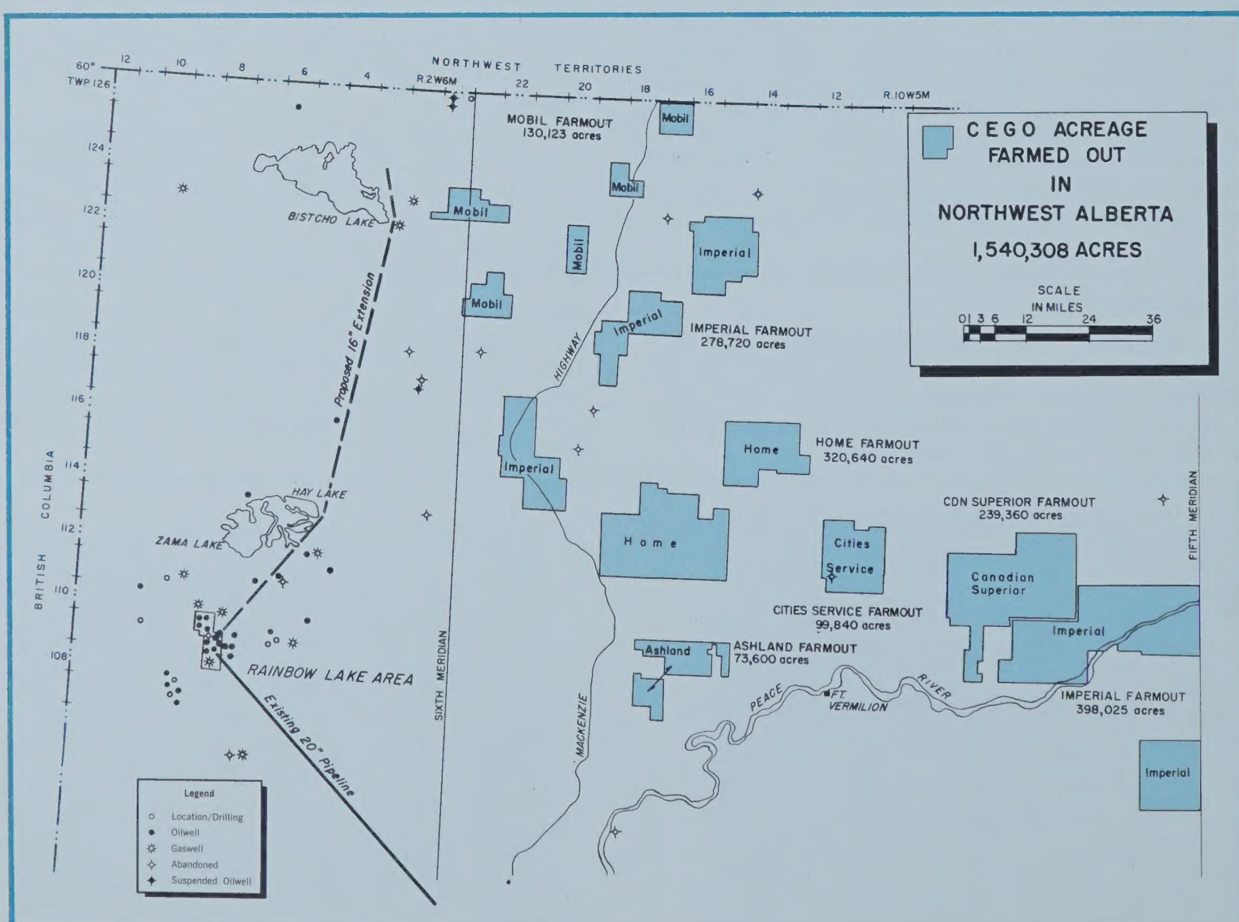
The farmout exploratory program in Northwestern Alberta has consisted primarily of geophysical surveys carried out during the winter season when access and mobility are at their best. Extensive seismic surveys were undertaken, an airborne magnetic survey covering 400,000 acres was made, and one well was drilled and abandoned on the Cities Service farmout block. The results of the exploration surveys are now being studied by the Farmees and, based on these, additional programs for this coming winter will be planned.

Elsewhere the Company drilled or participated in the drilling of 16 exploratory wells, three of which were completed as oil wells and one cased for further testing as a potential gas well. An exploratory outpost well to the Swan Hills area of Alberta proved an extension of this oilfield. In the Fox Creek area of Alberta, a well on a drilling reservation in which the Company has a 50% interest tested gas in the Lower Cretaceous section. The commercial possibilities of the well will be tested when weather conditions permit access to the location. Four other exploratory tests in Alberta were dry and abandoned. Two of these wells were drilled on Company interest acreage at no cost to the Company.

Two exploratory holes in the Browning and Willmar regions of southeastern Saskatchewan discovered oil. Development drilling, however, has shown the accumulations to be small. Seven additional exploratory wells in Saskatchewan were dry and abandoned. Two of these were drilled at no cost to the Company.

The Company's first British Columbia drilling venture, in the Junior gas area, was dry and abandoned.

During the coming year CEGO plans to participate in the drilling of four wells to evaluate newly acquired areas of interest. Plans are also being made to reach agreements for the evaluation of a number of areas in which your Company has a current land position. Three such agreements have been completed.



LAND

The Company negotiated five additional farmouts bringing holdings under agreement in northwest Alberta to a total of 1,540,308 acres. Under these agreements Farmees are to carry out exploratory programs which will earn interests in these lands varying from 25-50%.

An agreement with respect to a 15,520 acre reservation in the general Peace River area has also been negotiated. Work committed under this agreement will maintain all Company reservations in this area (totaling approximately 200,000 acres) in good standing during the ensuing year.

Other changes in acreage holdings include surrender of 12,521 acres of petroleum and natural gas leases and of a 19,840 acre reservation in the foothills; the sale of an 80,000 acre reservation north of the Cold Lake heavy oil area; and acquisition of a 10,240 acre reservation in the general Peace River area.

Elsewhere in Alberta there was a reduction of 38,194 net acres, while a net 6,501 acres were acquired in new areas. Other minor changes in land holdings resulted from conversion of permit and reservation lands to leases. An increase of 3,833 net acres occurred in Saskatchewan. The Company's first activity in B.C. earned a net 2,414 acres. In addition, 2,011 net acres of drilling reservation were purchased.

LAND HOLDINGS

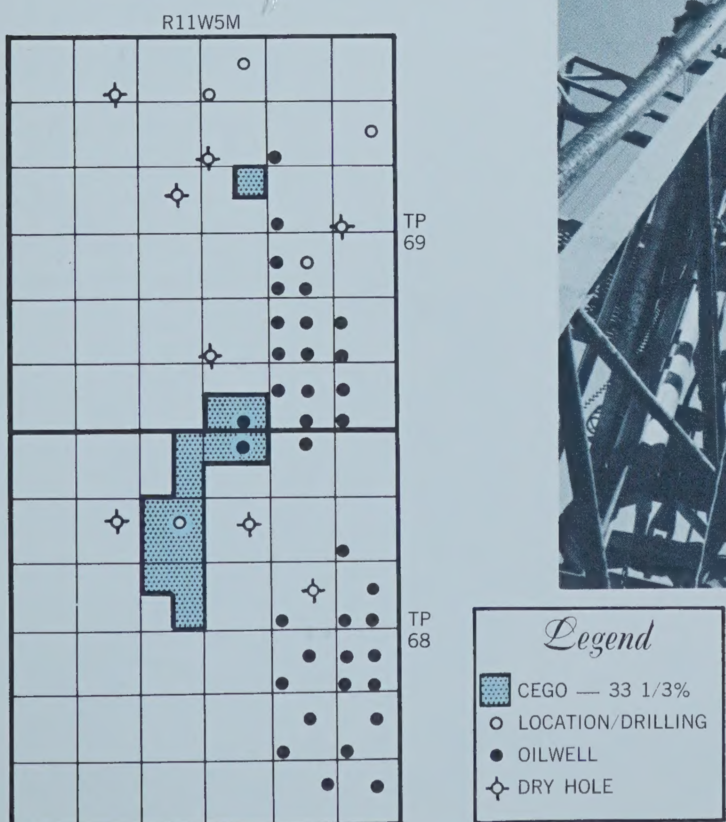
As at April 30, 1966

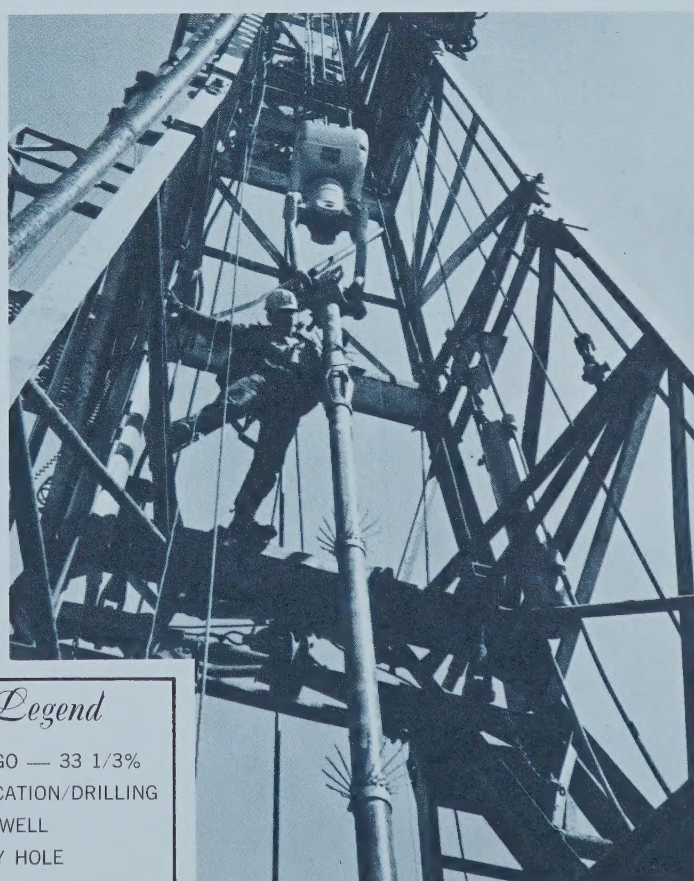
	Gross Acres	Net Acres
Alberta	2,243,401	1,988,838
Saskatchewan	27,512	18,931
Manitoba	1,490	1,490
British Columbia	30,170	4,425
Total Land	2,302,573	2,013,711

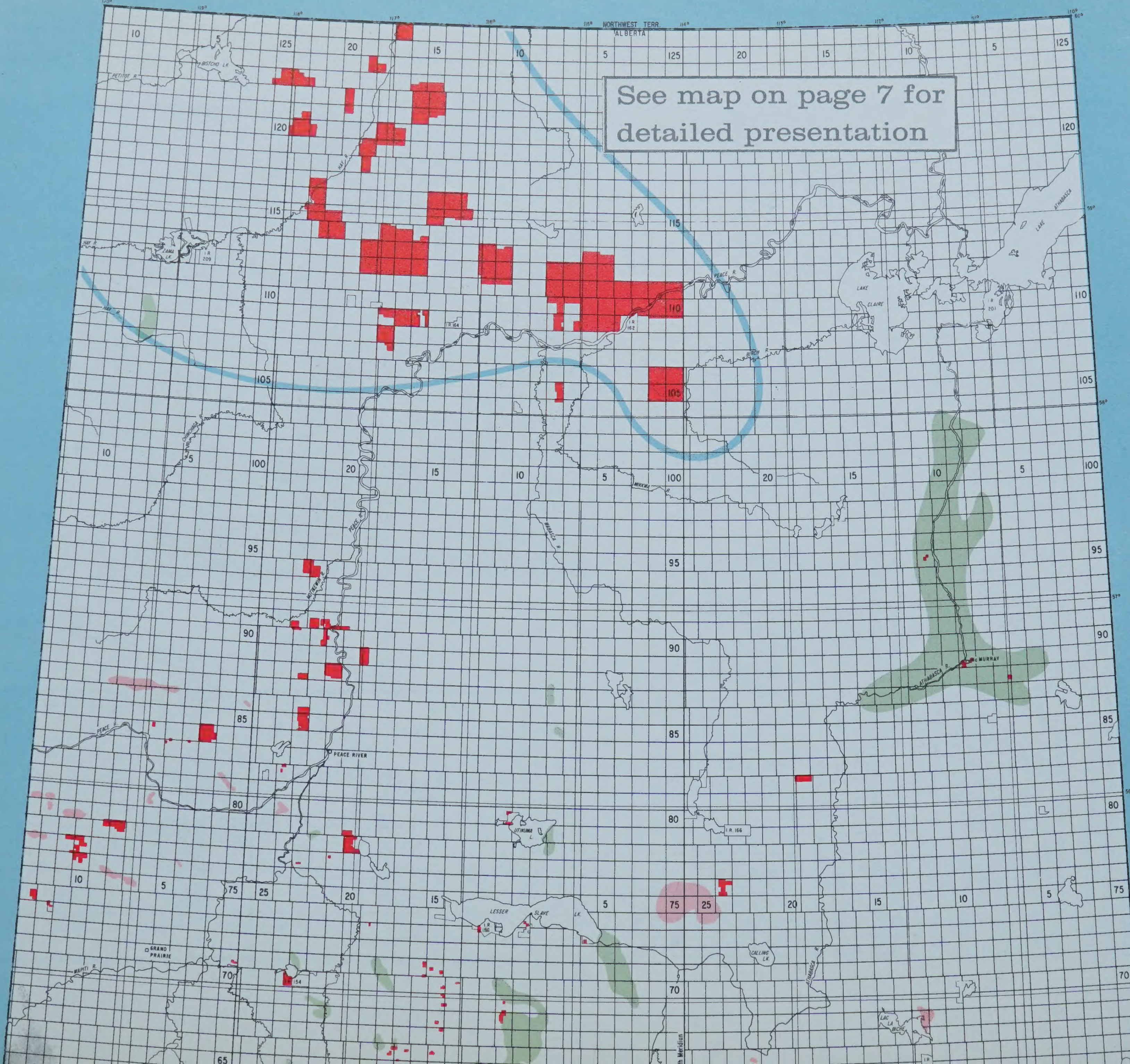
ROYALTY INTERESTS

	Gross Acres	Royalty Interest
Alberta		
Total Alberta	11,355	1%-2.5%
Saskatchewan	187,145	2½%
	5,880	1%-5%
	12,520	Mineral Titles
Total Saskatchewan	205,545	
Manitoba	3,643	1%-5%
	4,410	½ Mineral Titles
Total Manitoba	8,053	
Northwest Territories	84,549	0.34%
Total Royalty and Mineral Interests	309,502	

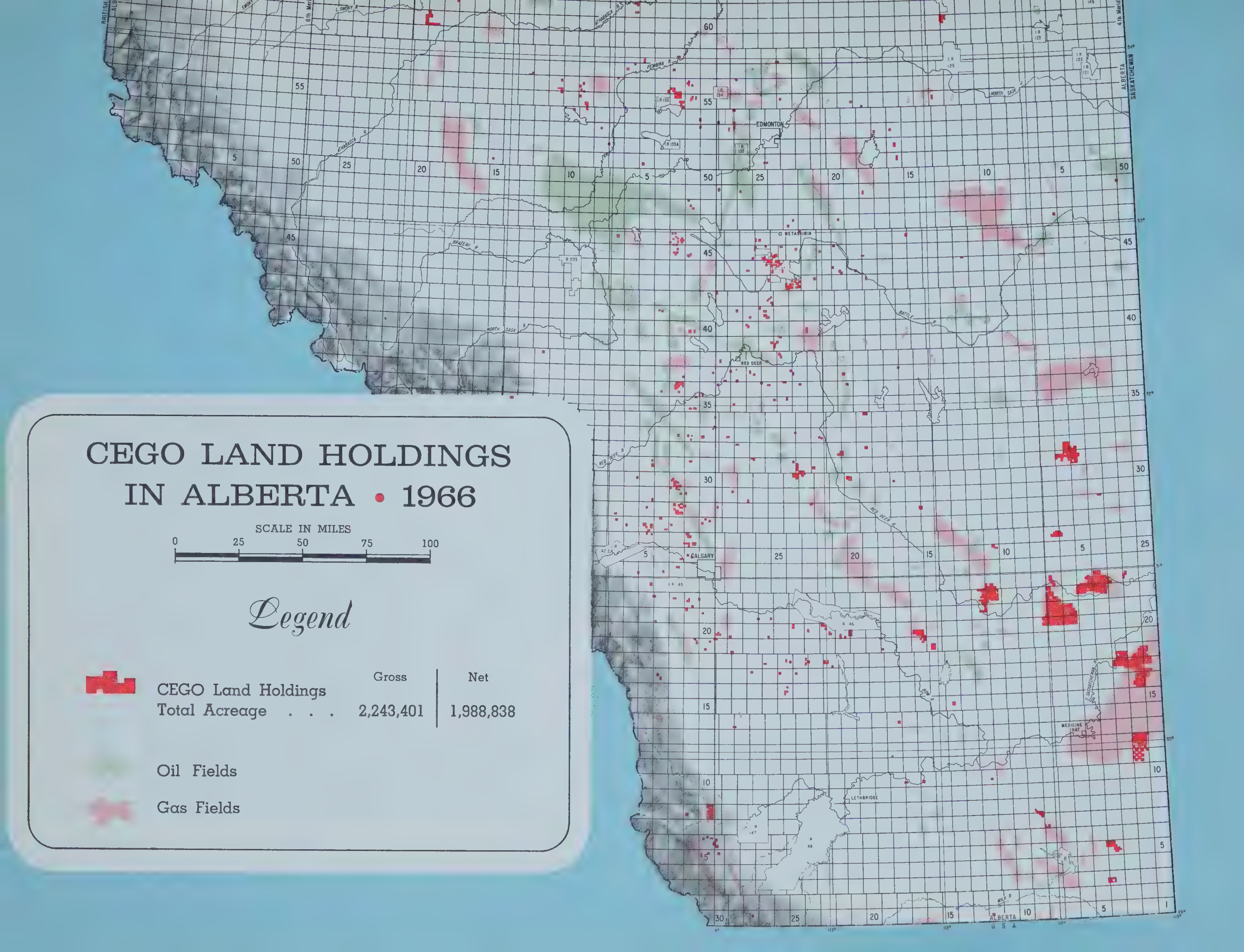
SWAN HILLS AREA
CENTRAL ALBERTA







NORTHWEST TERR.
ALBERTA
See map on page 7 for detailed presentation
BISTCHO LK.
PETITOT R.
HAY R.
ZAMA LK.
I.R. 209
I.R. 164
I.R. 162
PEACE R.
BIRCH R.
LAKE CLAIRE
I.R. 201
LAKE ATHABASCA
CHINCHAGA R.
MIKKWA R.
WABASCA R.
NOTIKEWIN R.
PEACE RIVER
McMURRAY
ATHABASCA R.
UTIKUMA L.
I.R. 166
LESSER SLAVE LK.
I.R. 150
CALLING LK.
LAC LA BICHE
GRAND PRAIRIE
WAPITI R.
I.R. 154


CEGO LAND HOLDINGS
IN ALBERTA • 1966
SCALE IN MILES
0 25 50 75 100
Legend
CEGO Land Holdings
Total Acreage . . .
Gross 2,243,401
Net 1,988,838
Oil Fields
Gas Fields
EDMONTON
WETASKIWIN
RED DEER
CALGARY
MEDICINE HAT
LETHBRIDGE
ALBERTA
SASKATCHEWAN
U. S. A.
PEMBINA R.
ATHABASCA R.
BRAZEAU R.
NORTH SASK. R.
RED DEER R.
BATTLE R.
BOW R.
SASKATCHEWAN R.
MILK R.
4th Meridian
6th Meridian

Consolidated Statement of
SOURCE AND DISPOSITION OF FUNDS

Year ended April 30, 1966
(With comparative figures for 1965)

	1966		1965	
SOURCE OF FUNDS:				
Cash flow from operations (See note below)		$1,150,092		1,588,082
Bank and other loans		200,400		1,441,161
Reservation deposits refunded and other receipts		250,469		—
		1,600,961		3,029,243
Reduction (increase) in working capital		(24,696)		167,950
TOTAL FUNDS EMPLOYED		$1,576,265		3,197,193
DISPOSITION OF FUNDS:				
Exploration:				
Land acquisition and exploration surveys	20%	$ 315,617	52%	$1,677,150
Wildcat and stepout drilling	23	359,479	12	371,368
Reservation deposits	—	—	8	247,500
Development and Other Expenditures:				
Drilling and equipment of wells	30	479,908	11	352,636
Gas gathering systems, plants and Miscellaneous (net)	5	71,261	10	320,314
FUNDS INVESTED IN THE COMPANY	78	1,226,265	93	2,968,968
Long Term Debt Reduction:				
Companies' sinking fund debentures	16	250,000	7	228,225
6% Notes payable	6	100,000	—	—
TOTAL FUNDS USED	100%	$1,576,265	100%	$3,197,193

NOTE:

Net earnings per statement of earnings	$ 67,643
Add:	
Provisions and amortization of bond discount not involving the outlay of cash	613,467
Dry hole costs included in the disposition of funds, and abandonments	468,982
Cash flow from operations as shown above	$1,150,092

Consolidated Statement of
EARNINGS AND RETAINED EARNINGS

Year ended April 30, 1966

(With comparative figures for 1965)

		1966	1965
OPERATING INCOME:			
Crude oil and natural gas sales, less royalties		$2,079,027	$2,219,066
Royalty income		166,333	178,402
		2,245,360	2,397,468
Less production expenses		496,316	437,688
		1,749,044	1,959,780
Deduct administrative and general expenses — net		287,206	135,563
Net operating profit before depletion and depreciation		1,461,838	1,824,217
OTHER CHARGES — NET:			
Acreage rentals on non-producing properties	$197,639		123,722
Interest on debentures	80,810		94,860
Interest — other	135,933		50,813
Amortization of bond discount	10,000		10,000
Dry holes and abandoned properties	468,982		256,026
	893,364		535,421
DEDUCT:			
Miscellaneous income	102,636		55,035
		790,728	480,386
Net earnings before the following provisions		671,110	1,343,831
PROVISIONS:			
Depletion and amortization	367,978		302,556
Depreciation	235,489		223,586
		603,467	526,142
Net earnings (Note 6)		67,643	817,689
RETAINED EARNINGS (DEFICIT) at beginning of the year		765,570	(52,119)
RETAINED EARNINGS at end of year		$ 833,213	$ 765,570

See accompanying notes to financial statements.

CANADIAN EXPORT GAS & OIL LT

CONSOLIDATED BALANCE

(With comparati

ASSETS

		1966	1965
CURRENT ASSETS:			
Cash		$ 162,661	$ 81,424
Accounts receivable		637,268	855,053
Marketable securities, at cost (quoted market value $194,003)		176,696	16,695
Inventories of equipment at the lower of cost or market		80,104	55,552
Total current assets		1,056,729	1,008,724
INVESTMENTS AND ADVANCES:			
Subsidiary company not consolidated (Note 1):			
Shares, at cost	$ 35,223		35,223
Advances	337,490		323,455
	372,713		358,678
Other shares, at cost	5,625		5,625
Drilling and reservation deposits	158,077		318,077
		536,415	682,380
FIXED ASSETS — at cost:			
Productive properties and equipment	10,248,358		9,706,768
Other assets	106,218		111,125
	10,354,576		9,817,893
Less accumulated depreciation, depletion and amortization	4,514,581		3,973,687
	5,839,995		5,844,206
Undeveloped properties	2,428,020		2,340,322
		8,268,015	8,184,528
DEFERRED CHARGES (unamortized):			
Exploration and preproduction expenditures (Note 1)	1,719,461		1,753,636
Bond discount	48,333		58,333
		1,767,794	1,811,969
		$11,628,953	$11,687,601

See accompanying notes to financial statements.

ID CONSOLIDATED SUBSIDIARIES

SHEET AT APRIL 30, 1966

res for 1965)

LIABILITIES

		1966	1965
CURRENT LIABILITIES:			
Accounts payable and accrued expenses		$ 569,708	$ 555,747
Accrued debenture interest		27,623	30,275
Payments required for debenture sinking funds		130,500	118,500
Bank loans due within one year (secured) (Note 2)		400,000	400,000
6% Notes payable due within one year (secured) (Note 3)		100,000	100,000
Total current liabilities		1,227,831	1,204,522
BANK LOANS, net of current portion (secured) (Note 2)		1,467,561	1,267,161
6% NOTES PAYABLE, net of current portion (secured) (Note 3)		300,000	400,000
FUNDED DEBT (Note 4)		1,284,500	1,534,500
SHAREHOLDERS' EQUITY:			
Capital stock (Notes 4 and 5):			
Authorized 12,000,000 shares of a par value of 16⅔ cents each.			
Issued and outstanding 7,828,394 shares	$1,304,732		1,304,732
Paid-in surplus	5,211,116		5,211,116
	6,515,848		6,515,848
Retained earnings	833,213		765,570
		7,349,061	7,281,418
		$11,628,953	$11,687,601

Approved on behalf of the board:

A. F. BECK, Director

E. CONNELLY, Director

This is the balance sheet referred to in the report of Peat, Marwick, Mitchell & Co., Chartered Accountants, dated July 4, 1966.

NOTES TO FINANCIAL STATEMENTS

April 30, 1966

1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of all of the company's subsidiaries except Bluewater Oil & Gas Limited. On April 30, 1966 the company's subsidiaries CEGO Minerals Ltd. (formerly Siebens Leaseholds Ltd.), W. L. Griffith Ltd. and The Lambton Company Limited amalgamated to form a new subsidiary called CEGO Minerals Ltd. and North Dakota Royalties Ltd. transferred its assets to this new subsidiary All intercompany accounts and transactions have been eliminated in consolidation.

From the date of incorporation, March 22, 1954, to June 30, 1957 the activities of the subsidiary company, Canex Gas Ltd., were in an exploratory and development stage and all exploration and preproduction expenditures less miscellaneous income received were deferred and are being amortized by a unit of production method based on the estimated recoverable gas reserves of the company at June 30, 1957. Capital expenditures of Canex Gas Ltd. are included in the accompanying consolidated balance sheet in the appropriate classifications under fixed assets.

The company's majority-owned subsidiary company, Bluewater Oil & Gas Limited, is not a significant subsidiary. The loss of Bluewater Oil & Gas Limited for the year ended April 30, 1966 applicable to the investment of the company on a consolidated basis amounted to $25,013. The company's share, on a consolidated basis, of the amount by which the deficit of Bluewater Oil & Gas Limited exceeded its capital amounted to $38,837 at April 30, 1966. The quoted market value of the company's investment at July 4, 1966 was $325,813 but due to the number of shares involved, this market value is not necessarily indicative of the amount that could be realized if this investment were to be sold.

2. BANK LOANS:

Although the bank loans are subject to call on demand, under the agreed terms of repayment an amount of $400,000 will be repaid within the next twelve months. These loans are secured by certain of the companies' properties and production proceeds.

3. 6% NOTES PAYABLE:

The 6% notes payable in the amount of $400,000 are repayable in the amount of $100,000 on February 1 in each of the years 1967 to 1970 inclusive. Certain shares of a wholly owned subsidiary company are pledged as security for these notes.

4. FUNDED DEBT:

Funded debt consists of 5% Convertible Sinking Fund Debentures, Series A, of which the parent company has $691,500 principal amount outstanding, maturing December 1, 1970, and Canex Gas Ltd. has $593,000 principal amount outstanding, maturing July 15, 1971. The funded debt of $1,284,500 is net of $118,500 of debentures purchased by the companies for sinking fund purposes and $130,500 included in current liabilities.

Series A debentures of the parent company are convertible into shares of the capital stock of the company at the option of the holders at the rate of 33 shares per $500 debenture until their maturity date. Series A debentures of Canex Gas Ltd. are convertible into shares of that company at varying rates until their maturity date. During the year ended April 30, 1966 100 shares of Canex Gas Ltd. were issued upon the conversion of a debenture.

The Series A debentures are redeemable out of the sinking fund and otherwise than out of the sinking fund at premiums varying with the date of redemption.

5. CAPITAL STOCK:

The company has reserved 438,039 shares of its capital stock, 162,500 in respect to an offer made by the company to accept shares of Canex Gas Ltd. that may be issued as a result of converting Canex Gas Ltd. debentures, and the issue of 2½ company shares for each Canex Gas Ltd. share tendered; 55,539 for exercise of the conversion privilege attaching to the company's 5% Convertible Sinking Fund Debentures; 220,000 for stock options to employees out of which restricted stock options have been granted to five employees as follows:

	Expiry Date
160,000 shares at $2.25 per share (exercisable one-eighth each year commencing December 15, 1960 on a cumulative basis)	April 15, 1968
10,000 shares at $1.53 per share (exercisable one-fifth each year commencing February 10, 1966 on a cumulative basis)	June 8, 1970

The trust indenture securing the company's 5% Convertible Sinking Fund Debentures, Series A, places a restriction upon the payment of dividends and upon the redemption or repayment of capital stock, unless, after giving effect thereto, the consolidated net current assets will be at least equal to 75% of the aggregate principal amount of funded obligations of the company then outstanding.

6. INCOME TAXES:

No provision has been made for income taxes for the year ended April 30, 1966 as each of the companies has drilling and exploration expenses which may, for income tax purposes, be applied against the current earnings so that no income taxes are exigible.

The drilling and exploration expenses which may, for income tax purposes, be applied against earnings in future years are estimated to amount, in the aggregate, to $4,600,000 at April 30, 1966.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Canadian Export Gas & Oil Ltd. and Consolidated Subsidiaries as of April 30, 1966 and the consolidated statement of earnings and retained earnings for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statement of earnings and retained earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company and its consolidated subsidiaries at April 30, 1966 and the consolidated results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying consolidated statement of source and disposition of funds for the year ended April 30, 1966 presents fairly the information shown therein.

Calgary, Alberta
July 4, 1966

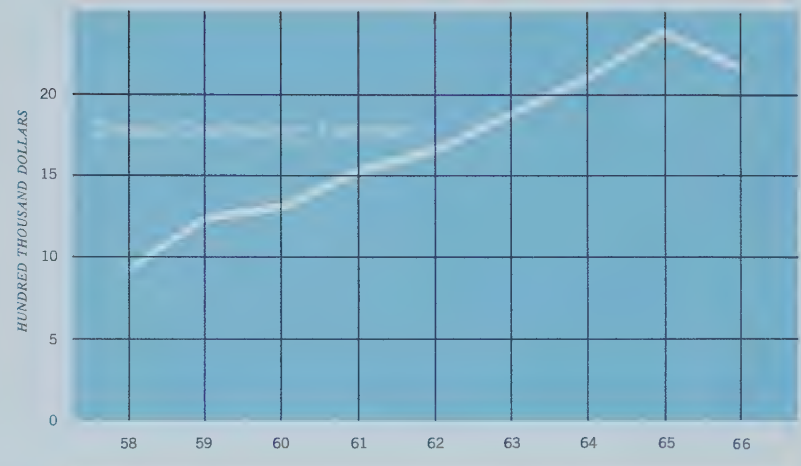
PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

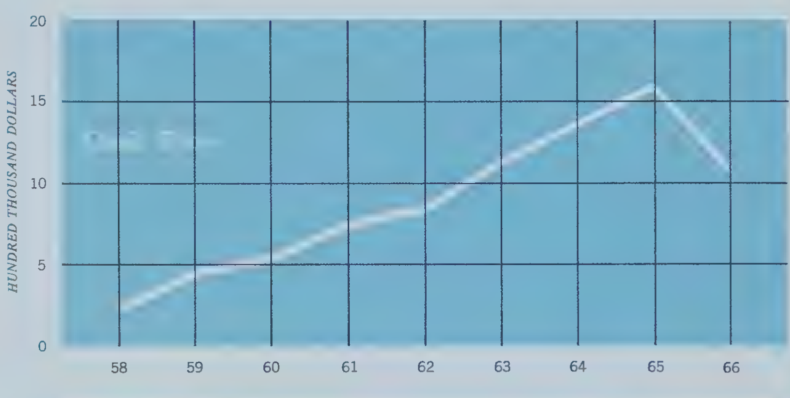
NINE YEAR STATISTICAL SUMMARY / 58 - 66

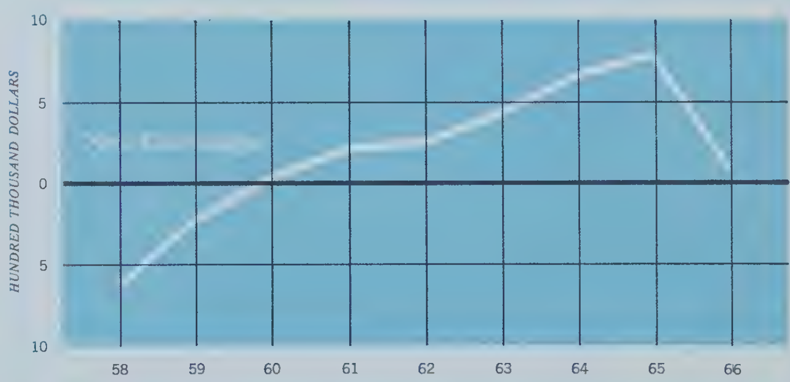
(Years ended April 30)

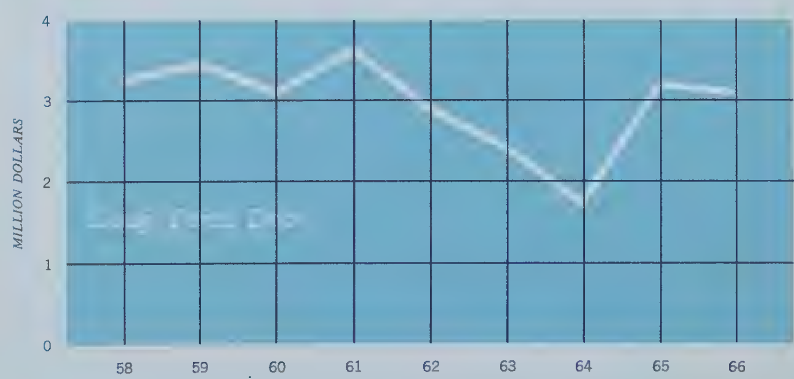
		1966	1965	1964	1963	1962
PRODUCTION:						
Oil —Annual	Bbls.	395,607	414,111	382,515	414,404	360,027
Daily average	Bbls.	1,084	1,135	1,048	1,135	986
Gas—Annual	MMCF	7,832	8,710	7,466	5,752	5,523
Daily Average	MMCF	21	24	20	16	15
EARNINGS:						
Gross operating income, less royalties paid	$	2,245,360	2,397,468	2,101,979	1,915,433	1,693,754
Net operating profit before depletion and depreciation	$	1,461,838	1,824,217	1,569,039	1,338,239	1,112,679
Cash flow from operations	$	1,150,092	1,588,082	1,395,376	1,126,147	883,660
Net earnings (loss) before depletion and depreciation	$	671,110	1,343,831	1,180,079	990,145	782,814
Net earnings (loss)	$	67,643	817,689	677,988	487,516	266,601
OPERATING EXPENSES:						
Production expenses	$	496,316	437,688	400,836	418,107	377,353
Administrative and general expenses	$	287,206	135,563	132,104	159,087	203,722
Total	$	783,522	573,251	532,940	577,194	581,075
CAPITAL STRUCTURE:						
Shareholders equity	$	7,349,061	7,281,418	6,463,729	5,243,282	4,755,766
Funded debt	$	1,284,500	1,534,500	1,784,500	2,032,745	2,279,150
Bank and other loans	$	1,767,561	1,667,161	226,000	536,711	712,111
Working capital deficit	$	171,102	195,798	27,848	384,860	417,561
Total capital invested	$	10,572,224	10,678,877	8,502,077	8,197,598	8,164,588
Number of shares outstanding		7,828,394	7,828,394	7,828,394	7,828,394	7,828,394
SIGNIFICANT RATIOS:						
Ratio of net earnings to gross earnings	%	3	34	32	25	16
Cash flow return on capital invested	%	11	15	16	14	11
Net earnings return on capital invested	%	1	8	8	6	3
Ratio of shareholders' equity to total capital invested	%	70	68	76	64	58
Ratio of operating expenses to gross earnings	%	35	24	25	30	34
Net book value of assets	Per share	$1.35	$1.36	$1.09	$1.05	$1.04
Cash flow	Per share	15¢	20¢	18¢	14¢	11¢
Net earnings	Per share	1¢	10¢	9¢	6¢	3¢
WELLS:						
Oil wells (net)		69	66	61	61	64
Gas wells (net)		79	77	75	77	73
Royalty interest wells (gross)		216	214	214	205	200
LAND HOLDINGS: (including royalty acreage)						
Gross acreage		2,612,075	2,831,728	893,331	4,335,811	4,339,891
Net acreage		2,013,711	2,227,392	306,901	324,128	322,845
OWNERS AND EMPLOYEES:						
Number of shareholders		7,790	5,022	5,250	5,521	5,413
Number of employees		37	38	32	31	35

1961	1960	1959	1958
381,717	380,078	358,816	301,757
1,046	1,041	983	827
4,397	2,917	1,926	288
12	8	5	1
1,538,581	1,327,713	1,273,901	935,308
1,077,870	804,679	771,575	509,173
792,359	524,987	471,069	206,765
703,635	435,498	215,142	(85,949)
222,658	28,747	(211,258)	(645,496)
303,212	307,087	208,936	114,296
157,499	215,947	291,904	311,839
460,711	523,034	500,840	426,135
4,175,977	3,466,287	2,798,476	2,988,213
2,509,500	2,784,500	3,071,500	3,250,500
1,136,211	325,800	429,000	–
428,051	1,080,986	627,013	88,732
8,249,739	7,657,573	6,925,989	6,327,445
7,628,394	7,428,394	7,166,453	7,019,456
14	2	–	–
10	7	7	3
3	–	–	–
51	45	40	47
30	39	39	46
$1.08	$1.03	97¢	90¢
10¢	7¢	6¢	3¢
3¢	–	–	–
63	65	62	52
68	51	38	33
166	179	167	149
4,373,945	4,914,210	5,160,108	5,894,986
316,645	424,306	426,989	1,139,545
5,024	4,879	4,642	4,601
41	38	37	37









ALCRAFT • CALGARY

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INTERIM REPORT

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OCTOBER 31st - 1966

CANADIAN EXPORT GAS & OIL LTD.

CEGO

CANADIAN EXPORT GAS & OIL LTD.

November 30, 1966.

TO THE SHAREHOLDERS:

Exploration and Land

The highlight of the last quarter was the continued extensive exploration activity in Northwest Alberta. Scene of the latest developments is the North Zama Lake area where a rash of recent drilling has met with varied success (see map). As of the end of October, four successful oil wells and two gas wells had been drilled. Three unsuccessful wells were drilled, one was suspended, and four more are drilling. Details on these wells have not been released by the operators. However, bids of up to $7500 per acre at a recent Crown Sale for lands in this area indicate something of the industry's evaluation of the potential.

The significance to your Company is that these developments are 45-50 miles north and east of the original Rainbow discovery bringing the area of known production to within 25-30 miles of CEGO acreage.

Of additional significance is the fact that some very substantial prices have been paid by others for Crown leases and reservation lands at the most recent sales of wildcat acreage adjacent to or within a very few miles of Company interest reservation blocks. The accompanying map shows the western portion (about 50%) of CEGO acreage in Northwest Alberta. Prices on these lands have ranged up to $745 per lease acre. There are now six drilling reservations in close proximity to Company lands, some of which should undoubtedly be drilled this winter season. This drilling will assist in the evaluation of your Company's holdings.

CEGO lands in this immediate area are all under farmout agreement to various operators (see map), who have to date conducted exploration surveys over certain of the lands and in two instances have drilled wells. Additional seismic surveys remain to be carried out on the majority of the acreage. However, present indications are that four test wells are to be drilled on these lands this winter, one of which is committed at this time.

In Southwest Saskatchewan 50% participation was taken by CEGO in an exploratory well, with another well in the same general area being drilled at no cost to the Company on Company interest lands. Both tests were dry and abandoned. Additional work on the Company's acreage in Flatrock in Northeast British Columbia is planned for this coming quarter.

During the past quarter a seismic option was granted on two reservations comprising 24,000 acres in the Peace River area of Alberta. In the same general area the Company dropped a reservation covering 13,440 acres and went to lease on 5760 acres selected from another reservation of 18,000 acres.

Operations and Development

One successful oil well was drilled and completed during the report period in the Swan Hills area, and at the time of writing this report another well was being completed as a producer. This brings to five the number of successful oil wells drilled in this program, with 3-4 additional wells being planned. The Company has a 33⅓% interest in this project.

The two wells farmed out in the Virginia Hills area have both been completed as oil producers. These wells were drilled at no cost to the Company with CEGO retaining a 20% interest after recovery of completion costs.

Two additional gas wells were drilled and connected to the gathering system in the Hilda gas field to assure maximum daily contractual requirements under our gas purchase contract. Both wells indicated above average producing characteristics.

The Virden Roselea Unit No. 3 effective date has been finally established as December 1, 1966, after approval of royalty owners and the Government was obtained. With the formation of this Unit the program for secondary recovery operations by water injection in all our Manitoba wells will have been completed.

A development well in the Olds oil field is being planned for drilling this coming quarter. This well is located on 640 acre spacing and CEGO has a 50% interest.

Production

Oil production for the six month period was 202,871 bbls. - a slight increase over the comparable period of last year. This production reflects only partially the new wells which have been completed in the Swan Hills and Virginia Hills area. The net gas production of 3,138 Mmcf for the period is a decrease of approximately 22% compared to the same period in 1965, continuing to reflect the expiration of the excess gas purchase contracts. These contracts expired November 1, 1965 and therefore no further decreases are expected.

The following tabulation shows the Company's production in the six months period ended October 31, 1966, as compared with the same period in 1965. Production as shown is net to the Company after deduction of royalties:

	Six months ended October 31	
	1966	1965
Oil production-Bbls.	202,871	198,303
Average per day-Bbls.	1,103	1,078
Gas production-Mmcf	3,138	4,010
Average per day-Mmcf	17	22

Financial

Gross income of $1,015,900 for the six month period ended October 31 was down 9%, mainly due to the lower sales caused by the expiry of the excess gas purchase contracts.

Cash flow was $479,700, down 17%. Net earnings for the six month period were $59,000 compared to $78,000 for the comparable period in 1965. One factor in holding down net earnings and cash flow has been the exceptional increase in corporate charges caused by the considerably increased market activity in the Company's shares.

The non-recurring loss of $269,600 arose from the disposal of the Company's remaining property in the Medicine Hat field. A lengthy study of the production characteristics of this field made it clear that it was not possible to produce gas economically. Part of this acreage was sold in 1963 at a gain of $542,000 with a resultant net gain to the Company of $273,000.

A. F. Beck

A. F. BECK

President

Canadian Export Gas & Oil Ltd. and Consolidated Subsidiary Companies

CONDENSED STATEMENT OF EARNINGS

	Quarter Ended Oct. 31		Six Months Ended Oct. 31	
	1966	1965	1966	1965
Crude oil and natural gas sales, less royalties	$ 488,100	$ 510,100	$ 936,600	$1,034,900
Royalty income	47,500	36,200	79,300	79,000
	535,600	546,300	1,015,900	1,113,900
Production, administrative and general expenses	220,500	179,500	382,200	337,000
NET OPERATING PROFIT	315,100	366,800	633,700	776,900
Rentals, interest and miscellaneous - net	74,300	131,100	154,000	195,200
CASH FLOW	240,800	235,700	479,700	581,700
Dry holes and abandoned properties	46,900	156,700	134,400	243,500
NET EARNINGS BEFORE PROVISIONS	193,900	79,000	345,300	338,200
Provision for depletion and depreciation	147,900	129,000	286,300	260,200
NET EARNINGS (LOSS) before non-recurring loss	46,000	(50,000)	59,000	78,000
Non-recurring loss on disposal of property	269,600	—	269,600	—
NET EARNINGS (LOSS) including non-recurring loss	($ 223,600)	($ 50,000)	($ 210,600)	$ 78,000

The above statement has not been audited.

WESTERN PORTION OF CEGO FARMOUT ACREAGE
NORTHWEST ALBERTA

SCALE
0 3 6 miles

LEGEND

- ○ LOCATION/DRILLING
- ● OILWELL
- ☼ GASWELL
- SUSPENDED
- ✧ ABANDONED
- I.R. INDIAN RESERVE
- SMT SETTLEMENT

- CEGO ACREAGE SHOWING FARMEE AND GROSS ACRES
- PARCELS SOLD AT 1966 CROWN SALES 18,080 NET ACRES FOR $7,833,929.00

NOTE: ALL WELLS SHOWN HAVE BEEN DRILLED SINCE CEGO'S AQUISITION OF ACREAGE IN THIS AREA.